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Recent Developments in Sukuks

Moinuddin Malim

Head, Corporate & Investment Banking

Badr Al Islami

www.iiff.com



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Sukuk Concept

Sukuk Concept

- Sukuk or Islamic bonds, should be an Islamic investment certificate.
- The essential concepts of Sukuk are:
 - transparency and clarity of rights and obligations;
 - income related to the purpose for which the funding is used;
 - securities should be backed by underlying tangible assets;
- Sukuks are modeled on conventional bond concept due to lack of platform
- Sukuk should not be a substitute for conventional interest-based securities.



Market Overview

Market Overview

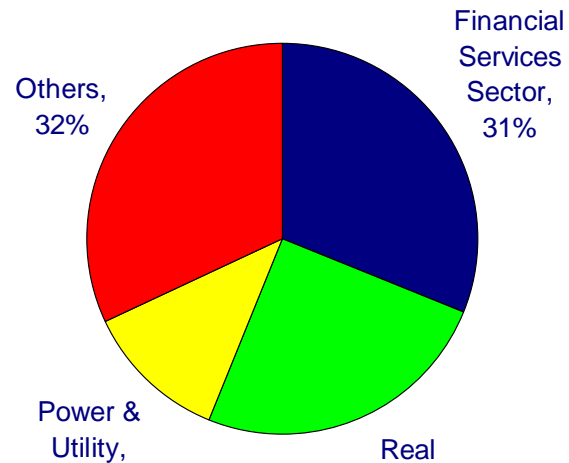
S. No.	Particulars	Unit of measure	2007	2006	% increase
Worldwide					
1.	Total number of sukuk issued	Number	207	199	↑ 4%
2.	Value of the sukuk issued	USD in billion	47.1	25	↑ 73%
3.	Total number of Corporate sukuk issued	Number	156	167	↓ 7%
4.	Total value of Corporate sukuk issued	USD in billion	37	21	↑ 76%
5.	Total value of Sovereign sukuk issued	USD in billion	10.1	4	↑ 253%
Middle East					
1.	Volume of sukuk issuances	Number	53	38	↑ 39%
2.	Number of Corporate sukuk	Number	21	13	↑ 62%
3.	Value of the Corporate sukuk	USD in billion	13.5	6.8	↑ 99%
Malaysia					
1.	Number of Corporate sukuk	Number	112	148	↓ 24%
Pakistan					
1.	Total number of sukuk issued	Number	20	4	↑ 400%



Current Trends

Current trends

- Big drop in the value of sukuk issuance in the 3rd & 4th quarter 2007
- In UAE USD 13.5 billion Sukuk issued – USD 10 billion Sukuk postponed
- 2008 –the number of issuances expected to increase, in non-USD denomination
- Malaysia will continue to exceed the number of Sukuk issued in the GCC.
- Sukuk market expected to grow by 35% a year to reach \$200 billion by 2010
- Sukuk issuers comprises of:





Structural Adaption

Structural Adaption - AAOIFI Recommendation

AAOIFI's new rules for Sukuk is intended to keep on check on aggressive structures:

1. Tradable Sukuk **must** represent ownership for Sukuk holders
2. Tradable Sukuk **not permitted** to represent revenue streams or debt with exceptions.
3. Manager of Sukuk **not permitted** to offer loans to Sukuk holders when actual earnings fall short of expected earnings.
4. Manager **not permitted** to agree to purchase assets for a nominal value of those assets.
5. Lessee **is permitted** to purchase the leased assets at maturity.
6. Shariah supervisory boards **must not** consider their responsibility to be over when they issue a fatwa on the structure of Sukuk.



Shariah Considerations

Shariah Consideration

- New Rules issues and under discussion to make F.I. conform to Sharia
- Legal ownership vested with Sukukholders rather than nominal ownership
- Sukuks must involve the funding of trade, or the production of, real assets.
- Funding the purchase of financial securities is akin to lending for derivatives which is very close to gharar.
- Sukukholders have the right to know the exact purposes for which the funding is raised.
- Funding raised through Islamic bond issues should be hypothecated or earmarked rather than used for general unspecified purposes.
- Sukuks should be asset backed and not just asset based.

A Final Thought

"Instead of being more expensive the new structure may yield more revenue if it is based on real sharing of profits and losses.

"The difficulty is not inherent in the proposed structure itself, rather the difficulty is only in the conventional approach that wishes the Islamic Sukuk to be reflecting all the characteristics of conventional banks."

Sheikh Muhammad Taqi Usman
Chairman AAOIFI